



Golf Course Valuation – The Income Approach

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Golf Course Valuation – The Income Approach

- Basic Definitions and Information
- Example
- Data Collection Sheet



Golf Course Valuation – The Income Approach

- HEA 1001 – 2009 (ss) stipulates that for assessments after January 15, 2010 (i.e. starting with the March 1, 2010 assessment), the true tax value of a golf course will be determined by applying the income capitalization approach. The income approach should provide for the uniform and equal assessment of golf courses of similar grade quality and play length. The value of personal property, intangible property, and the income derived from personal property or intangible property is excluded.



Golf Course Valuation – The Income Approach

- Golf carts are considered to be personal property; hence, the DLGF has interpreted this statute to exclude the income derived from the rental of golf carts from the income approach to valuation. This could have a significant impact on the valuation of the golf courses. Assessing officials should closely review the income and expense statements of the taxpayer to ensure golf cart rental income and expenses are not included in the valuation.



Golf Course Valuation – The Income Approach

For assessment dates after January 15, 2010 and before March 1, 2012, a township assessor (if any) or the county assessor shall gather and process information from the owner of a golf course to carry out these provisions. For assessment dates after February 28, 2012 (i.e. the March 1, 2012 assessment date), the DLGF is to establish uniform income capitalization tables and procedures for the assessment of golf courses. Assessing officials shall use these tables and procedures to assess, reassess, and annually adjust the assessed values of golf courses.



Golf Course Valuation – The Income Approach

- The Income Capitalization approach is one of three approaches to the valuation of real property. The appraiser derives a value indication for income-producing property by converting the anticipated benefits through ownership of property. (Source: International Association of Assessing Officers – Course #102 “Income Approach to Valuation”).
- It is based on the economic principles of:
 - Anticipation
 - Change
 - Supply and demand and competition
 - Substitution
 - Balance and contribution



Golf Course Valuation – The Income Approach

Real estate competes with other investments for the investor's dollars. All investors want a return on their investment. All investors want a return of their investment.

- “IRV” – A Generic Capitalization Formula
- $I \text{ (income)} = \text{Rate} \times \text{Value}$
- $R \text{ (rate)} = \text{Income}/\text{Value}$
- $V \text{ (value)} = \text{Income}/\text{Rate}$



Golf Course Valuation – The Income Approach

- For example, a corner lot in a business district is used as a parking lot. The monthly income earned is \$1,250. The owner's required rate of return for this type of property is 7.5% per year. What is the value of this property?

Monthly Income	\$1,250
	<u>x 12</u>
Annual Income	\$15,000

IRV Formula: $V = I/R$ $\$15,000/.075 = \$200,000$

Capitalization can be defined as the process to convert income into an estimate of value.



Golf Course Valuation – The Income Approach

- **Basis of Income:**

For a golf course, there may be several different sources of income, including green fees, membership dues, concessions, and other miscellaneous sources.



Golf Course Valuation – The Income Approach

■ Income and Expense Statement:

Reconstructed from the owner's statement. Format:

- Gross Income Estimate (potential gross income)
- Miscellaneous Income
- Effective Gross Income
- Allowable Expenses
 - Operating
 - Replacement Reserves
 - Real Estate taxes (deducted under certain conditions)



Golf Course Valuation – The Income Approach

- **Allowable Expenses continued:**
 - Management fees/expense
 - Insurance
 - Salaries
 - Benefits
 - Utilities
 - Advertising
 - Repairs
 - Supplies
 - Legal and Accounting Fees
 - Miscellaneous Expenses
 - Replacement Reserves



Golf Course Valuation – The Income Approach

- **Non-allowable expenses:**
 - Depreciation (reflected in the recapture rate)
 - Capital improvements
 - Franchise fees and special corporation costs
 - Owner's personal expenses (income taxes, etc.)
 - Debt service (principal and interest on mortgage)
 - Payments on loans for capital improvements
 - Real Estate taxes (not deducted as an expense under certain conditions – reflected in the effective tax rate).



Golf Course Valuation – The Income Approach

- Total Operating Expenses
- Replacement Reserves
- Total Expenses

- Net Operating Income



Golf Course Valuation – The Income Approach

■ Income and Expense Statement for the Hackers Golf Course:

INCOME	2009	2008	2007	3-Year Average
Rounds Played	1100	1200	1300	
GOLF INCOME				
Green Fees	\$33,000	\$34,000	\$40,000	
Annual Golfing	\$75,000	\$77,000	\$72,000	
Member Dues				
Driving Range	\$11,111	\$12,121	\$9,999	
Miniature Golf Sales	\$9,595	\$8,700	\$6,363	
Club Storage	\$1,200	\$1,200	\$1,200	
Total Golf EGI	\$129,906	\$133,021	\$129,562	\$130,830



Golf Course Valuation – The Income Approach

■ Income and Expense Statement for the Hackers Golf Course:

NON-GOLF INCOME	2009	2008	2007	3-Year Average
Pro Shop Sales	\$5,555	\$6,000	\$5,500	
Food & Beverage Sales	\$40,000	\$40,000	\$40,000	
Annual Non-Golfing	\$18,000	\$13,000	\$10,000	
Member Dues				
Other Income	\$1,700	\$1,600	\$1,554	
Total Non-Golf Income	\$65,255	\$60,600	\$57,054	\$60,970
Total Enterprise Income				\$191,800



Golf Course Valuation – The Income Approach

■ Income and Expense Statement for the Hackers Golf Course:

GOLF EXPENSES	2009	2008	2007	3-Year Average
Course Maintenance	\$14,995	\$15,224	\$15,880	
Course Maintenance Salaries	\$28,995	\$29,000	\$29,500	
Irrigation	\$8,000	\$7,500	\$7,200	
Advertising/Promotion	\$1,000	\$1,000	\$1,000	
@ 50%				
Facilities Insurance @ 25%	\$3,200	\$3,200	\$3,200	
Management @ 10%	\$12,991	\$13,302	\$12,956	
Golf EGI				
Replacement Reserves	\$2,200	\$2,400	\$2,600	
@ \$2/round				
Total Golf Expenses	\$71,381	\$71,626	\$72,336	\$71,781



Golf Course Valuation – The Income Approach

■ Income and Expense Statement for the Hackers Golf Course:

Non-Golf Expenses	2009	2008	2007	3-Year Average
Other Real Estate	\$3,300	\$5,000	\$4,400	
Maintenance				
Other Salaries	\$31,000	\$30,500	\$30,250	
Other Utilities	\$4,500	\$4,600	\$4,500	
Advertising/Promotion	\$1,000	\$1,000	\$1,000	
@ 50%				
Facilities Insurance @ 75%	\$9,600	\$9,600	\$9,600	
Cost of Pro Shop Sales	\$3,500	\$3,500	\$3,500	
Cost of Food/Beverage Sales	\$15,000	\$15,000	\$15,000	
Management @	\$6,526	\$6,060	\$5,704	
10% Non-Golf EGI				



Golf Course Valuation – The Income Approach

■ Income and Expense Statement for the Hackers Golf Course:

	2009	2008	2007	3-Year Average
Total Non-Golf Expenses	\$74,426	\$75,260	\$73,954	\$74,547
Total Enterprise Expenses				\$146,328
Total Enterprise NOI				\$45,472
Capitalize @ 12%*				\$378,933
				\$378,900
Market Value In Use of Real Estate			\$378,900	

* Capitalization rate for illustrative purposes only.



Golf Course Valuation – The Income Approach

■ Capitalization Rate:

Determining the Net Operating Income is a key determinant in establishing the value of a property in the income approach. The other key component that can have a significant effect on the total value of the property is the capitalization rate.

We will focus on the “Overall Capitalization Rate” (OAR) which expresses the relationship between net operating income and the market value of the property.



Golf Course Valuation – The Income Approach

Capitalization Rate continued:

It can be developed using the following:

- Market Extraction
- Effective Tax Rate
- Mortgage & Equity
- Discounted Cash Flow



Golf Course Valuation – The Income Approach

Capitalization Rate continued:

- Contrary to popular belief, the OAR is not always “10”!
- The OAR reflects risk, liquidity (or lack thereof), potential for growth in net income, and general requirements of the investor.
- To determine the value of the property (simplistically), divide the Net Operating Income by the Overall Rate.



Golf Course Valuation – The Income Approach

■ Hackers Golf Course:

For example (using our previous NOI):

- \$45,472 divided by a 7% OAR = \$649,600
- \$45,472 divided by a 10% OAR = \$454,700
- \$45,472 divided by a 12% OAR = \$378,900



Golf Course Valuation – The Income Approach

So now that we know the capitalization rate can have a significant impact on the value of the property, what other things can make a difference?

- **Replacement Reserves:** This allows a fund to be collected to replace items that will wear out. For example, an apartment complex may establish a replacement reserve for the roof, furnace, water heater, carpet, etc. These items are deducted after the operating expenses (included in the total expenses).
- For a golf course, these items could possibly include a roof for the clubhouse, a water heater, furnace, etc.
- The amount of income and expenses are the other things that will obviously have an impact on the bottom-line.



Golf Course Valuation – The Income Approach

- **Steps to Determine Value:**
 - Determine Effective Gross Income from Golf
 - Determine Non-Golf Income
 - Total Enterprise Income
 - Deduct Expenses and Replacement Reserve



Golf Course Valuation – The Income Approach

- **Steps to Determine Value continued:**
 - Net Operating Income
 - Capitalize
 - Does one size fit all – not necessarily!



Golf Course Valuation – The Income Approach

■ Data Collection Sheet:

Course

Name: _____

Date: _____

Address: _____

Parcel #'s _____

Ownership: _____

Course

Designer: _____



Golf Course Valuation – The Income Approach

■ Data Collection Sheet:

Course Type/Operation:

- Regulation
- Executive Par 3
- Public/Semi-Private
- Private Resort

Land:

- Total Acreage
- GC Acreage
- Type of Terrain



Golf Course Valuation – The Income Approach

■ Data Collection Sheet:

Course Layout:

- # of Holes
- Par
- Yardage
- Slope
- Rating
- Annual # of Rounds



Golf Course Valuation – The Income Approach

■ Data Collection Sheet:

Course Ownership:

- "S" Corporation
- U.S. Corporation
- Partnership
- Sole Proprietorship



Golf Course Valuation – The Income Approach

■ Data Collection Sheet:

Golf Rates:

- Membership Rates Type/Amount
- Green Fees (Off-Season)
 - Weekday
 - Weekend
- Green Fees (In-Season)
 - Weekday
 - Weekend



Golf Course Valuation – The Income Approach

- **Data Collection Sheet:**
 - Cart Fees (Off-Season)
 - Weekday
 - Weekend
 - Cart Fees (In-Season)
 - Weekday
 - Weekend
 - Other Rates
 - Type/Amount



Golf Course Valuation – The Income Approach

■ Data Collection Sheet:

Other Rates:

- Driving Range
- Bucket Price
- Season Pass
- Club Storage
- Other



Golf Course Valuation – The Income Approach

■ Data Collection Sheet:

Clubhouse Amenities:

- Bar/Restaurant
- Snack Bar
- Banquet Facilities
- Pro Shop
 - Full-Line
 - Basic-Line



Golf Course Valuation – The Income Approach

■ Data Collection Sheet:

Other Amenities:

- Pool
- Tennis Courts
- Rain Shelters

Miscellaneous Comments



Contact The Department

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